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Statement by Dale E. Hathaway
Under Secretary of Agriculture for International
Affairs and Commodity Programs
before
Committee on Agriculture
House of Representatives
June 25, 1980

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Mr. Chairman, Members of the Committee, I welcome the opportunity to update you on our policy regarding restraint of grain sales to the Soviet Union. I also want to clear up some misconceptions about an informal request made last January to several multinational grain companies and cooperatives to refrain from selling third country 1979-crop grain to the Soviet Union, and our reasons for believing that this request is no longer necessary.

With me today are Secretary of Agriculture, Bob Bergland, and Mr. Howard Hjort, Director of Economics, Policy Analysis and Budget, who chairs our government-wide grain suspension monitoring group.

At the outset, I would like to say there has been no relaxation or change in our policy which was adopted in response to Soviet aggression in Afghanistan. The request made in January that grain firms refrain from third country sales to the Soviet Union was intended to allow sufficient time for other exporting countries to adopt and implement their own restrictive policies, and to deal with a significant quantity of "uncommitted" 1979-crop grain that was available at that time and which was outside the control of these governments. This "uncommitted" 1979-crop grain is no longer available for sale to the USSR.

The Soviets' ability to purchase 1980-crop grain will be limited by the export policies of the U.S. and its trading partners, and not by the activities of a few multinational grain corporations and cooperatives.

It is probably useful to review the context within which the grains policy was developed and has operated.

No one needs to be reminded of the Soviet invasion of Afghanistan and the need for a response by the free world.

On January 4, President Carter announced that he would suspend all grain shipments to the Soviet Union in excess of 8 million metric tons covered under the fourth year of the U.S.-USSR Grains Agreement. Also suspended were shipments of other agricultural commodities related to the feed-livestock complex. Shipments of certain agricultural products unrelated to the feed-livestock complex, such as fruits and nuts, were allowed to resume.

On January 12, representatives of the major grain exporting countries met in Washington. At that meeting we received assurances that these governments would not replace U.S. grains withheld by the President's action. A copy of the statement agreed to by all the countries represented is attached to my statement.

In the course of that meeting, it became apparent that there was a significant quantity of grain available in the countries represented, but which was outside the direct control of their governments.

At this point, it is important to understand the manner in which the world grain trade operates. One common misconception is that in countries which have governmental or quasi-governmental grain boards--such as Canada--all grain importing is done directly by the boards. This is not true. Year in and year out, each of these boards uses private corporations to sell some of its grain. The boards also use private corporations to merchandise, i.e., handle the shipping logistics of some of the grain that the board sells. In other cases, such as the European Communities and Argentina, all export business is done by private corporations or cooperatives, and the official controls over export quantities and prices are maintained by other mechanisms.

A second misconception is that the handful of multinational companies which participate heavily in the U.S. export business are the only firms capable of large-scale export activities around the world. This simply is not true. Many Swiss, Italian, Latin American, French, and Asian companies do worldwide business daily with many countries, including the Soviet Union. These foreign firms are virtually unknown in the United States because they do not generally operate directly in the U.S. cash grain markets. However, these companies may purchase U.S. products from U.S. grain merchandisers and sell them to other importing countries. This point is important to understand and it underscores a legal and practical point that I shall make later.

Now, as I said, during the January 12 meeting with other exporting countries, we became aware that substantial quantities of

foreign 1979-crop grain had previously been made available to various companies for sale to "unspecified destinations." Our rough estimate is that the quantity involved was 2.5 to 3.0 million metric tons. This grain had already been licensed for export by Australia, Canada, the European Communities, and Argentina and, thus, private owner-exporters holding licenses could legally have sold it anywhere, including to the USSR.

It was our view that such "uncommitted" foreign grain was incremental to the quantities that various other governments had already officially agreed to supply the USSR, and that it was also incremental to any new restrictions imposed or planned by these governments. Therefore, it was in the interest of an effective restraint policy that "uncommitted," foreign origin, 1979-crop grain should not be sold to the USSR. Since this grain had been licensed by the various governments, and exporters could legally ship it to any country, the success of a restraint policy was based on the extent to which we could persuade companies operating in the U.S. (both corporations and cooperatives) to voluntarily cooperate with the U.S. government in restraining their third country grain sales to the Soviet Union.

Thus, after due consultation with the Secretary of Agriculture and other Administration officials, I called those companies operating in the U.S. and involved in exporting grain to the USSR, and asked them to voluntarily refrain from selling to the Soviets any third country grain from the 1979 crop which they might own or might acquire. These companies agreed to honor this request, even though they might

have realized substantial profits from such sales, since, at that time, the Soviets were reportedly paying a premium to purchase "uncommitted" grain.

After January 7, 1980, the Department of Commerce instituted an export licensing system for all shipments of U.S.-origin grain to the USSR to insure that no more than 8 million tons of grain would be shipped during the fourth agreement year. It is a well-known and clear violation of our law for any company to knowingly ship U.S. grain to the USSR or to re-export it from the original destination without authorization from the Department of Commerce. In addition, the CCC Exporter Agreement to assume suspended contracts, which 12 exporters signed, required that exporters certify that they and their affiliates "have complied and will comply with any lawful restrictions or announced restrictive policies with respect to the exportation of agricultural commodities and products to the USSR which have been or may be imposed by any foreign country with respect to commodities which have been produced in or are being transshipped through such country." Finally, the U.S.D.A. set up a government-wide system to monitor Soviet grain purchases.

By late spring, the "uncommitted" grain in the hands of private firms had been sold. At that point, it became clear that the effectiveness of further efforts to restrain USSR imports of 1980-81-crop grain would be dependent upon the export policies of third country governments. Furthermore, an announcement had been made that the U.S. would honor the fifth year of the U.S.-USSR Grains Agreement

and, thus, the U.S. would license up to 8 million tons of wheat and corn for shipment to the USSR beginning October 1, 1980.

Representatives of other governments pointed out to us that our informal prohibition of third country sales was interfering with their normal export activities. They made the point that the companies involved were violating the spirit if not the letter of the law of these countries by failing to participate in authorized sales. Inasmuch as various restrictive policies implemented by these governments would control the overall level of exports to the Soviet Union, and additionally could control the unknown destination problem, the informal restriction of sales by certain private firms within these countries was no longer necessary.

After carefully evaluating whether or not the informal third country request served any further purpose, it was concluded that it did not and that it should be dropped. The companies involved were informed by telephone on Wednesday, June 18.

The subsequent flurry of news stories and statements appear to be based upon three misunderstandings of the facts:

1. The first is that this action was a relaxation or change in policy regarding the limits of sales to the Soviet Union. This is not the case. Our January request regarding sales of third country grain was made only to deal with the "uncommitted" grain that was available at that time and has no effect upon, or relationship to,

the official export policies of the United States or our allies vis-a-vis the Soviet Union.

2. The second misunderstanding is that if the dozen companies that were asked to participate in the third country sales restriction, continued to abide by it, the Soviets would be prevented from obtaining grain from non-U.S. sources. Given the large number of companies which operate entirely outside U.S. legal jurisdiction, and that are capable and experienced in trading grain, this is just not true. Moreover, we cannot exercise jurisdiction over foreign corporations not owned or controlled by U.S. persons, when they trade in foreign origin grain.

3. The third misunderstanding is that this action puts U.S. farmers at a disadvantage to foreign producers. As matters now stand, U.S. farmers will sell from 6-8 million metric tons of grain to the USSR if the Soviets honor the fifth year of the agreement. This is more than any other country will be selling to the Soviets during the year. It will be the policies of the U.S., Canada, Australia, the European Communities, and other governments which will effectively limit sales to the USSR; it will not be the actions or inactions of a small group out of a large universe of multinational grain traders.

I hope this explanation clears up the several misconceptions about what has happened; the rationale for our limited short-term request to the export companies; the effectiveness of it in curtailing shipments of uncommitted grain; and why our interests are no longer served by these restrictions.

We are aware that in a world economy, characterized by diverse sources of production, large volume of trade, and the fungible nature of grains, some diversion could and would occur. But the exceptional cases, representing only small volumes of diverted grain, should not deter attention from the fact that our efforts to deny grain to the USSR have been very successful.

We have constrained the Soviets' ability to draw upon world markets in a period of a short Soviet crop and unprecedented needs. The Soviets' ability to acquire grain has been reduced by almost 11 million tons between October 1979 and September 1980.

The Soviets have been forced to draw heavily upon domestic grain reserves, leaving them highly vulnerable to a crop failure. Even if their crop is close to trend levels, the Soviets still would not be able to secure the grain necessary to replenish stocks.

The logistical coordination necessary to plan for and handle large grain movements to and within the Soviet Union has been severely disrupted, resulting in even greater stress on availability of grain for consumption.

Although it is difficult to specifically quantify the impact of our restrictions, the political message cannot be misunderstood. The privileges of normal access to international commerce have been denied the Soviets as a consequence of their irresponsible behavior in Afghanistan. We remain convinced that our policy is correct, that it has been effective, and that it will deny the Soviets the maximum amount of grain at a most vulnerable time.

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NEWS

U.S. DEPARTMENT OF AGRICULTURE

STATEMENT BY UNDER SECRETARY OF AGRICULTURE ON GRAIN EXPORTERS' MEETING

WASHINGTON, Jan. 12--The following statement was issued by Dale E. Hathaway, Under Secretary of Agriculture, after today's meeting of representatives of countries involved in international export of grain (OFFICIAL TEXT):

There is general agreement among the export representatives here that their governments would not directly or indirectly replace the grain that would have been shipped to the Soviet Union prior to the actions announced by President Carter.

Regarding this issue, the public statement of the Government of Argentina is well known. Nevertheless, in this meeting the delegation of Argentina has stated that in no case does the Government of Argentina intend to take trade advantages from the present international situation. Neither will it seek to alter artificially the current demands of the different markets.

In these circumstances, exporters will work in concert to avoid disruption of grain markets.

We will immediately establish a group for the purpose of examining trade flows on a continuing basis in order to accomplish our common purposes. Actual procedures which individual exporting authorities are in a position to use must differ and thus will be considered further by those concerned.

The United States indicated the possibility of meeting additional food aid needs beyond those already established. It was agreed countries would collectively examine those possibilities to insure that new food aid flows do not interfere with what would otherwise have been commercial transactions.

Finally, it was agreed this group will reconvene as necessary to review the situation.

(End of Official Text)

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